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Davis Distributing
Limited

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Annual Report
1973



Davis Distributing Limited

Directors:

B. Davis
S.D. Vader
I.J. Grosman
J.C. McCartney
S.A. Aronoff

Officers:

B. Davis, *President*
S.D. Vader, *Vice-President and Secretary*
I.J. Grosman, *Treasurer*
T.J. Gowland, *Vice-President, Merchandising*

*Wholesale
Subsidiaries:*

Young-Robertson Limited
Nathan Davis Vending Limited

*Retail
Subsidiaries:*

McDermott Discount Stores and Drug Marts
Z.M. Goldstein, *Vice-President, Operations*
H. Himmel, *Vice-President, Merchandising*

*Transfer Agent and
Registrar:*

The Metropolitan Trust Company
Toronto, Ontario

Co-Transfer Agent:

The Morgan Trust Company
Montreal, Quebec

Banking:

Bank of Montreal, Toronto

Auditors:

Richter, Usher & Vineberg
Chartered Accountants, Toronto

Legal Counsel:

McCarthy & McCarthy
Barristers & Solicitors, Toronto



REPORT TO THE SHAREHOLDERS

In this our fifth annual report to the shareholders, I would like to describe briefly the nature and scope of the principal operation of the Company and its subsidiaries during the past fiscal year.

Davis Distributing Limited and Young-Robertson Limited are the major operating companies. Their principal business is the wholesale distribution of cigarettes, tobacco products, health and beauty aids, patent medicines, confectionery and sundries. They purchase these products from manufacturers or from their exclusive agents. They operate as a vast supermarket for retailers where over 5,000 nationally advertised pre-sold products may be purchased by telephone or mail or from a sales representative. An effective processing system and modern merchandise handling methods enable the companies to assemble and deliver orders as soon as required.

The companies also act as retail consultants to their customers, providing advice on such matters as location and design of stores, inventory requirements and pricing. Promotions are planned and advertising material is provided to customers wanting such services.

DAVIS DISTRIBUTING LIMITED

The Company is headquartered in a large one story modern building close to downtown Toronto where much of its business is done. Customers are serviced throughout southern Ontario from these premises.

Included among its customers are large retail chains, department stores and supermarkets. It has been a major supplier of some chains since the early 1960's. With the continual increase in the cost of money, delivery, warehousing and labour, many large retail companies which have warehoused and distributed products to their own stores are now looking to the large wholesale specialist to supply this service. Such a wholesaler can usually provide a better service at a lower effective cost. Continued increases in the Company's sales indicate a continuation of this trend.

YOUNG-ROBERTSON LIMITED

This company operates from a modern one storey building in Guelph, about 60 miles from downtown Toronto. It services customers in about a 25 mile radius, which takes in many small towns.

Although this company distributes the same type of products as its parent company, most of its customers are small stores. A cigarette vending machine operation is an important ancillary.

NATHAN DAVIS VENDING LIMITED

About a year ago, this company began to market a line of high fidelity loudspeakers in North America under the brand name "Videotone" after signing an exclusive agreement with a Hungarian trading company. Substantial organizational expenses and development costs have been incurred while sales have been disappointing. Remedial action is now being taken to correct the situation.

PURCHASE OF McDERMOTT'S

After the year end, Davis Distributing Limited purchased all of the shares of the companies which own and operate the McDermott Discount Stores and Drug Marts. The business consists of 26 retail stores operating principally in Toronto and Hamilton. This acquisition is considered to be a natural step in the expansion of the Company and a strong entry into the retail business. The vendors, Zelick Goldstein and Hyman Himmel are continuing as managers of the McDermott chain.

RESULTS OF FISCAL YEAR 1973

The annual report for the year ended June 30, 1973 includes consolidated financial statements of Davis Distributing Limited and its subsidiaries Young-Robertson Limited and Nathan Davis Vending Limited.

Sales increased to \$22,409,162 as compared with \$20,420,849 last year. These sales were achieved principally by Davis Distributing Limited and Young-Robertson Limited. Each of these two companies had record earnings. However, consolidated net earnings dropped a little to \$127,060 or 25.5¢ per share compared to 28.2¢ per share last year. This was due to the losses experienced in Nathan Davis Vending Limited.

Sales in the first quarter of the current fiscal year are ahead of the sales in the same period last year in the wholesale divisions. The next report to shareholders will include sales and results of the newly acquired retail business.

On behalf of the board,

B. DAVIS,
President.

November 15, 1973.



Davis Distributing
Limited

CONSOLIDATED BALANCE SHEET

	June 30 1973	June 30 1972
ASSETS		
CURRENT ASSETS		
Cash	\$ 53,270	\$ 193,223
Accounts receivable	2,203,729	1,626,355
Inventories, at the lower of cost or net realizable value	1,633,963	1,444,755
Prepaid expenses and sundry assets	60,929	69,880
Income taxes refundable	39,918	
	<u>\$3,991,809</u>	<u>\$3,334,213</u>
FIXED ASSETS — Note 3		
Land, building, equipment, vehicles and leasehold improvements	\$ 501,951	\$ 493,150
Accumulated depreciation	153,369	138,575
	<u>\$ 348,582</u>	<u>\$ 354,575</u>
EXCESS OF COST OVER BOOK VALUE OF BUSINESSES AND SUBSIDIARY ACQUIRED		
	<u>\$ 71,388</u>	<u>\$ 71,388</u>
	<u>\$4,411,779</u>	<u>\$3,760,176</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank advances — Note 4	\$ 960,000	\$ 675,000
Accounts payable and accrued liabilities	1,841,608	1,544,805
Current portion of mortgage payable	5,000	3,500
Income taxes payable	67,706	84,710
	<u>\$2,874,314</u>	<u>\$2,308,015</u>
7% MORTGAGE PAYABLE — Note 5	<u>\$ 19,891</u>	<u>\$ 26,214</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK — Note 6	\$ 537,856	\$ 537,856
RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST — Note 7	<u>\$ 984,749</u>	<u>\$ 892,090</u>
	<u>\$1,522,605</u>	<u>\$1,429,946</u>
3,100 Common Shares Purchased, at cost	<u>5,031</u>	<u>3,999</u>
	<u>\$1,517,574</u>	<u>\$1,425,947</u>
	<u>\$4,411,779</u>	<u>\$3,760,176</u>
Approved on behalf of the Board:		
B. DAVIS, <i>Director</i>		
I. J. GROSMAN, <i>Director</i>		

AUDITORS' REPORT

To the shareholders of
DAVIS DISTRIBUTING LIMITED

We have examined the consolidated balance sheet of Davis Distributing Limited and subsidiary companies as at June 30, 1973 and the consolidated statements of earnings, retained earnings and excess of appraised value of land over cost, and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1973 and the results of their operations and the source and use of their funds for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
September 24, 1973.

RICHTER, USHER & VINEBERG,
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

	For the Year Ended	
	June 30 1973	June 30 1972
Sales	\$22,409,162	\$20,420,849
Cost of sales, operating and administrative expenses, exclusive of depreciation and interest	22,065,095	20,058,678
	<u>\$ 344,067</u>	<u>\$ 362,171</u>
Depreciation	\$ 25,510	\$ 59,954
Interest (including interest of \$1,732 on long term debt, \$7,136 — 1972)	63,883	37,550
	<u>\$ 89,393</u>	<u>\$ 97,504</u>
Net earnings before income taxes and extraordinary items	\$ 254,674	\$ 264,667
Provision for income taxes	127,614	124,146
Net earnings before extraordinary items	\$ 127,060	\$ 140,521
Extraordinary items		145,622
Net earnings	<u>\$ 127,060</u>	<u>\$ 286,143</u>
Earnings per class A share and common share		
Before extraordinary items	<u>25.5¢</u>	<u>28.2¢</u>
Including extraordinary items	<u>25.5¢</u>	<u>57.3¢</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST

Balance — beginning of year	\$ 892,090	\$ 627,989
Net earnings	127,060	286,143
	<u>\$ 1,019,150</u>	<u>\$ 914,132</u>
Dividends		
Class A shares — 5½¢ per share (3¢ 1972)	\$ 17,875	\$ 9,750
Common shares — 9½¢ per share (7¢ 1972)	16,526	12,292
	<u>\$ 34,401</u>	<u>\$ 22,042</u>
Balance — end of year	<u>\$ 984,749</u>	<u>\$ 892,090</u>

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

Funds were provided from

Operations

Net earnings before extraordinary items	\$ 127,060	\$ 140,521
Non cash charges to earnings		
— depreciation	25,510	59,954
	<u>\$ 152,570</u>	<u>\$ 200,475</u>

Proceeds from sale of equipment and goodwill — net	6,333	399,029
	<u>\$ 158,903</u>	<u>\$ 599,504</u>

Funds were used for

Fixed asset additions	\$ 25,850	\$ 35,021
Equipment instalments and mortgage payments	6,323	9,029
Dividends	34,401	22,042
Purchase of common shares	1,032	3,999
Redemption of notes payable		113,000
Balance of purchase price of vending business		50,000
	<u>\$ 67,606</u>	<u>\$ 233,091</u>

Increase in working capital	\$ 91,297	\$ 366,413
Working capital — beginning of year	1,026,198	659,785
Working capital — end of year	<u>\$ 1,117,495</u>	<u>\$ 1,026,198</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1973

NOTE 1 — NAME CHANGE

During the year the company changed its name from Davis Distributing and Vending Limited to Davis Distributing Limited.

NOTE 2 — BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Davis Distributing Limited and its wholly owned subsidiaries, Nathan Davis Vending Limited and Young-Robertson Limited.

All material inter-company amounts have been eliminated on consolidation.

NOTE 3 — FIXED ASSETS

Fixed assets are classified as follows:

	At Cost Or As Stated	Accumulated Depreciation	Net Book Value
Land, at appraised value June 16, 1965	\$198,000		\$198,000
Building	85,543	\$ 35,235	50,308
Warehouse, vending and office equipment	158,408	95,096	63,312
Vehicles	20,713	11,759	8,954
Leasehold improvements	39,287	11,279	28,008
	<u>\$501,951</u>	<u>\$153,369</u>	<u>\$348,582</u>

Depreciation rates adopted by the company are:

(a) On the diminishing balance method

Building — 5% per annum

Warehouse, vending and office equipment — 20% per annum

Vehicles — 30% per annum

(b) On the straight line method

Leasehold improvements — term of lease

NOTE 4 — SECURITY FOR BANK ADVANCES

The accounts receivable have been pledged as security for the bank advances.

NOTE 5 — 7% MORTGAGE PAYABLE

The company's property at 162 Queen's Quay East, Toronto, has been pledged as security for the mortgage payable. The mortgage is repayable \$447 monthly including interest and matures February 1, 1977.

NOTE 6 — CAPITAL STOCK

Authorized

500,000 class A shares without par value
500,000 common shares without par value

Issued

325,000 class A shares	\$ 1,250
176,803 common shares	536,606
	<u>\$537,856</u>

The class A shares are convertible at any time into fully paid common shares on a one for one basis.

No dividend may be declared on the class A shares in any financial period unless a dividend of the same or greater amount is or has been declared on the common shares in such financial period.

Options have been granted to employees to purchase up to 4,000 common shares at \$1.75 per share until July 31, 1975. No material dilution of earnings would result from the exercise of these options.

Subsequent to the year end, the company increased its authorized capital from 500,000 common shares without par value to 2,000,000 common shares without par value and changed the voting rights of the Class A shares to 10 votes per share.

NOTE 7 — RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST

The retained earnings and excess of appraised value of land over cost includes \$158,777 excess of appraised value of land over cost resulting from an appraisal on June 16, 1965.

NOTE 8 — LETTERS OF CREDIT AND LEASE OBLIGATION

- i) A subsidiary, Nathan Davis Vending Limited, was contingently liable for \$174,000 in respect of unused letters of credit in favour of a supplier.
- ii) The company has a lease commitment expiring in 1989 for its warehouse at an annual rental of \$78,027.

NOTE 9 — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers as defined by The Securities Act (1966) of Ontario for the fiscal year ended June 30, 1973 was \$91,020.

NOTE 10 — EVENTS SUBSEQUENT TO YEAR END

- i) On August 17, 1973, the company acquired all the issued capital of the companies which own and operate the McDermott Discount Stores and McDermott Drug Marts for a consideration of \$105,000 and 165,000 common shares.
- ii) A subsidiary, Nathan Davis Vending Limited, granted a floating charge debenture on its assets to a maximum of \$400,000 and the company guaranteed this debenture. The debenture secures letters of credit outstanding and certain accounts payable of the subsidiary.



45 Logan Avenue, Toronto 252, Ontario

DAVIS DISTRIBUTING LIMITED

NOTICE OF ANNUAL MEETING

Take notice that the Annual Meeting of the Shareholders of Davis Distributing Limited will be held in the Upper Canada Room at the King Edward Sheraton Hotel, 37 King Street East, Toronto, Ontario, on the 11th day of December, 1973 at the hour of 2:00 o'clock in the afternoon (Toronto time)

- (a) to receive the financial statements of the Company;
- (b) to elect directors;
- (c) to appoint auditors and authorize the directors to fix their remuneration; and
- (d) to transact such other business as may properly come before the Meeting.

if you are unable to be present at the Meeting please sign, date and return the enclosed proxy in the envelope provided.

DATED at Toronto this 15th day of November, 1973.

By Order of the Board,

SYLVIA VADER,
Secretary.

DAVIS DISTRIBUTING LIMITED

INFORMATION CIRCULAR

for

ANNUAL MEETING OF SHAREHOLDERS

to be held December 11, 1973

This circular accompanies the Notice of the Annual Meeting of the Shareholders of Davis Distributing Limited to be held on December 11, 1973 and is furnished in connection with the solicitation by the management of proxies to be voted at such meeting for the purposes set forth in the notice of Meeting. The costs of such solicitation will be borne by the Company.

A proxy in the form enclosed with the Notice of Meeting confers discretionary authority with respect to amendments or variations to the matters identified in the Notice of Meeting or other matters which may properly come before the meeting.

Shares represented by such a proxy will be voted.

The shareholder has the right to appoint a person (who need not be a shareholder) to represent him at the meeting other than the persons designated in the form of proxy enclosed with the Notice of Meeting. Such right may be exercised by filling in the name of such person in the blank space provided in such form of proxy.

A proxy in the form enclosed with the Notice of Meeting may be revoked at any time before it is exercised.

VOTING RIGHTS

325,000 Class A shares without par value and 341,803 common shares without par value of the Company are outstanding. Each Class A share entitles the holder to 10 votes and each common share entitles the holder to one vote at all meetings of shareholders.

Shareholders of record on December 11, 1973, the date of the Annual Meeting, are entitled to vote but those desiring to be represented at the meeting by a nominee must deposit their proxies with the Company prior to the commencement of the meeting.

PRINCIPAL HOLDERS OF SHARES

Natsyl Company Limited is the beneficial owner of 148,650 Class A shares of the Company representing 22.3% of the outstanding equity shares of the Company; Bernard Davis is the beneficial owner of 79,625 Class A shares and 8,700 common shares of the Company representing 13.2% of the outstanding equity shares of the Company; and Sylvia Vader is the beneficial owner of 63,100 Class A shares and 10,600 common shares of the Company representing 11.1% of the outstanding equity shares of the Company.

ELECTION OF DIRECTORS

It is proposed to nominate the persons listed below as directors of the Company to serve until the next Annual Meeting of the Shareholders or until their successors are duly elected or appointed, unless any such person is not available to act as a director, in which event a substitute may be nominated.

REMUNERATION OF MANAGEMENT AND OTHERS

The aggregate direct remuneration paid by the Company and its subsidiaries to the directors and senior officers of the Company during the year ended June 30, 1973 was \$91,020.

On August 23, 1972 options were granted to directors and senior officers of the Company to purchase 4,000 common shares of the Company at \$1.75 per share, expiring July 31, 1975. The price range for the common shares in the 30 day period preceding August 23, 1972 was from a high of \$1.75 to a low of \$1.55.

MANAGEMENT INTERESTS

On August 17, 1973, the Company acquired the McDermott Discount Stores and Drug Marts by way of the purchase of all of the shares of Torwinham Company Limited, Janus Drugs Limited, W.W. MacQuillen Drug Store Limited, Hy-Zel Company Limited and Bevlor Co. Limited from Zelick M. Goldstein and Hyman Himmel for \$105,000 and 165,000 common shares. Zelick M. Goldstein, a proposed nominee for election as a director, received one half of the consideration.

The Company has agreed to pay a fee of \$10,800 to a corporation controlled by a director for management services.

INFORMATION AS TO PERSONS PROPOSED TO BE NOMINATED FOR ELECTION AS DIRECTORS

<u>Name of proposed Nominee</u>	<u>Directors since</u>	<u>Principal occupation</u>	<u>Class A</u>	<u>Shares of the Company owned beneficially (1)</u>
BERNARD DAVIS (2) 2 Heathview Avenue, Willowdale, Ontario	1953	President of the Company	79,625	8,700
SYLVIA VADER (3) 50 Prince Arthur Avenue, Apartment 1406, Toronto, Ontario	1953	Vice-President and Secretary of the Company	63,100	10,600
J. J. GROSMAN 51 Alexander Street, Apartment 609, Toronto, Ontario	1969	Treasurer of the Company	—	—
JAMES C. MCCARTNEY 235 Cortleigh Boulevard, Toronto, Ontario.	1969	Lawyer, McCarthy & McCarthy	—	—
SEYMOUR A. ARONOFF 7 Benner Avenue, Toronto, Ontario.	1972	President, Globetrotter Management Limited	—	1,000
T. JAMES GOWLAND, 60 Citation Drive, Willowdale, Ontario		Vice-President, Merchandising of the Company	29,625	8,600
ZELICK M. GOLDSTEIN 83 Heathcote Avenue, Willowdale, Ontario.		Vice-President, Operations McDermott Companies	—	85,150

Notes

- (1) The number of shares is as reported by respective nominees.
- (2) Natsyl Company Limited which is an associate of Bernard Davis owns beneficially 148,650 Class A shares.
- (3) Associates of Sylvia Vader own beneficially an aggregate of 4,000 Class A shares and 3,700 common shares.

APPOINTMENT OF AUDITORS

The persons named in the form of proxy enclosed with the Notice of Meeting intend to vote for the re-appointment of Richter, Usher & Vineberg as auditors of the Company. They were first appointed in 1970.

OTHER BUSINESS

The management knows of no matters to come before the meeting other than the matters referred to in the Notice of Meeting.

As of November 15, 1973.

SYLVIA VADER,
Secretary.